GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3870
ANSWERED ON:17.08.2001
INVESTMENT BY BANKS IN SHARE MARKET
SHEESH RAM SINGH RAVI

Will the Minister of FINANCE be pleased to state:

(a) whether RBI has asked certain banks to submit details of their exposure in stock markets after a private sector bank came in the close scrutiny of the regulator for exceeding the prudential limits;

(b) if so, the number of banks which have submitted the details of their exposure in the country`s stock markets;

(c) whether some banks have deviated from the prudential norms of the RBI forproviding guarantees in the capital market as part of their non-fund exposure; and

(d)if so, the action the Government has taken or propose to take against the banks, which have not followed/are not following the laid down norms of the RBI ?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

(a),(b),(c)&(d): Reserve Bank of India (RBI) has reported that it had collected data on exposure of all scheduled commercial banks to capital market, which revealed that the total investments of these banks in shares, debentures etc. aggregated Rs.8773 crore as on 31st January, 2001. The above data had revealed that as on 31st January, 2001 three banks had exceeded the 5 percent ceiling prescribed by RBI for investments in capital market.RBI had called for the explanation of these banks and two of these banks have brought down their investments to 5 percent ceiling as on 31st March, 2001. The remaining bank is taking steps to bring the exposure within the 5 percent ceiling.

In terms of RBI`s guidelines, banks are free to issue guarantees on behalf of stock brokers in favour of stock exchanges as per the loan policy approved by their respective Boards. However, the exposure by way of issue of such guarantees are reckoned as part of the 5 percent ceiling. The banks are required to retain margin of 40 percent, (inclusive of cash margin of 20 percent for issue of guarantees) on behalf of share brokers. RBI has taken necessary action against 2 banks which have not followed these guidelines.